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FINANCIAL TECHNOLOGY COMPANIES AS A POSITIVE DISRUPTOR FOR THE HOSPITALITY INDUSTRY

Abstract: Hospitality industry is considered to be a vital part in the process of economic development and economic growth. Nevertheless, it is facing certain obstacles and disruptions which are hindering the growth of the hospitality industry as well the growth of the tourism industry. One of the most quoted factors impeding industry growth is the access to finance, while most quoted factor for rise of many disruptors is technological innovation. Although technology has created non-traditional competitors, the hospitality industry should use technological innovations to solve the access to finance problem. The solution for hospitality industry is coming through the financial technology companies (fintech) offering alternative financing sources. There are numerous examples in which enterprises from this industry have successfully raise the needed capital for investment projects through crowdfunding platforms.

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1. Introduction

The importance of tourism industry and hospitality industry for the economy has been widely recognized. There are numerous economic benefits arising from these industries because of their characteristics. But in the last decade the hospitality industry has faced with increased number of disruptors which have major impact on the competition level and internal processes of enterprises. Maybe one of the crucial factors responsible for the creation of disruptors for the industry is the technological development. Technological developments have changed the landscape of hospitality industry. Even though the technology brought many changes in the industry, it also created previously non-existing opportunities. One such opportunity is the creation of new financing sources. The financial technology companies have appeared in a period when the traditional financing sources have become insufficient and unreliable for the hospitality industry.

2. Disruptors of hospitality industry

Well-developed tourism industry provides numerous benefits for the local and national economy. Positive economic impact is evident in terms of job creation, generating tax revenue (especially from international tourists) and support for the local development (UNCTAD, 2008). The support for local economic development is coming in the form of creation of new business opportunities related to the tourism industry. These business opportunities are also promoting creation of businesses related to secondary services as a support for tourism industry. One such secondary service is evident as an outsourced service i.e. the cleaning services for hospitality industry. Other areas where new business opportunities could be created with the development of tourism industry are: production and sale of souvenirs, transportation, event planning, maintenance, etc.

Recognizing the importance of tourism industry, the importance of hospitality industry should not be neglected as well. Namely, the hospitality industry has important role in the economic development

(Prasanna Kansakar et al., 2018). The value of the hospitality industry is emphasized because the industry is interrelated with the tourism development. The importance of hospitality industry and tourism industry is that they are contributing toward the increase in job creations because these industries are labor intensive (Svetlana Vukosav and Nevena Čurčić, 2013).

Knowing the importance of hospitality industry, policy makers should focus their efforts towards minimization and elimination of existing and future problems which could impede the growth and development of hospitality industry and tourism industry in general. Policy makers should identify possible factors which have adverse effect on the development of SMEs and family owned hotels and accommodation capacities.

In order for the obstacles responsible for hindered growth to be eliminated, they should be firstly identified. Consequently, there are numerous factors which are limiting hospitality industry growth along with disruptors who have appeared in the last decade. Depending on the way these new disruptors are utilized, they could have positive or negative effect on the hospitality industry. Disruptors which have impacted the hospitality industry in the last couple of years influenced the traditional activities and processes of the enterprises, and the way people travel.

These disruptors have created new competitors, eased the access to the industry, enabled new financing sources, stimulated non-experienced owners and managers to enter in the hospitality industry, and changed the regulatory framework for conducting business.

The entrance of owners who lack experience could result in mismanagement of the enterprises in terms of its finances. Namely, lack of adequate understanding of hospitality industry and the financial management of its capacities could cause misunderstanding of relevant financial aspects. This is especially true for the family owned accommodation facilities, with inadequate level of knowledge when it comes to financial management. Consequently, this deficiency in financial knowledge, is forcing owners and managers to manage the financial aspects of the firm in spontaneous way (Mattimoe Ruth, 2013). Moreover, absence of proper financial management may result in misleading financial performance assessment of firm's operations (Catarina Rosa Nunes and Maria João Cardoso Vieira Machado, 2012).

The financial knowledge is also important when it comes to the assessment of potential investment i.e. growth of the firm. Meaning that, owners or managers should be able to properly evaluate the financial benefits from a possible long-term investment (increasing the number of rooms, building new facilities, offering new services, etc.). Also, adequate level of financial literacy could help managers or owners to better understand and assess different sources of capital and decide on the most adequate source for their business.

Another factor which is responsible for the creation of different disruptors is technological development. The impact of technological developments on various aspects of hospitality operations and management is becoming evident in the last decade or more. Specifically, the technology had impact on the competition levels, the marketing and promotional activities, internal processes of enterprises, and financial aspects of enterprises (Grant Thornton, 2015).

Main areas in hospitality industry activities which have been subject to changes are: accepting payments, booking rooms and other services, protection of clients' data, access to finance and changes in regulatory framework.

Namely, booking platforms have drastic impact on the way tourists' book their rooms and other services. These new platforms have enabled hotels and hospitality in general to get free promotion whether positive or negative, in the form of comments/reviews from tourist's staying in the hotel. Not only that, the hospitality industry now has access to free insights into what should be improved i.e. the hotels can now identify their strengths and weaknesses from customers reviews.

Technological development has also increased the level of competition in the hospitality industry. Competition is increased in terms of new entrants in the industry. These new competitors such as new form of accommodation capacities and small-scale accommodation capacities have influenced the preferences of travelers. For instance, peer-to-peer rental platforms caused changes in the accommodation preferences of tourists (David Trunkfield and Nicolas Mayer, 2017; Howard Roth and Michael Fishbin, 2017). Hence, the hospitality industry is changing the traditional way of conducting

its activities. The hospitality industry is bound to adapt and accept these new trends caused by technological innovations.

The popularization of social media is yet another disruptor of the industry. Owners and managers operating in hospitality industry should be aware about the importance of social media feedback and its impact on revenue per available room (RevPAR) (Tom Derhake et al., 2017). The importance of the feedback i.e. information is particularly emphasized in the hospitality industry because of the ease with which customers can share any positive or negative experience. Thus, the hospitality industry should utilize the benefits arising from the information and communication technology (ICT) in a way in which it will increase their customer base, occupancy rate as well as REVPAR (Olga Strietska-Ilina et al., 2005).

Technological innovations have also made disruptions in the financial aspects of enterprises in hospitality industry. This is in terms of the payment processing options available today as well as the availability of new sources for capital. The hospitality industry doesn't have to rely solely on the traditional sources of finance anymore. Enterprises could have access to funds through the new financial products offered by fintech companies.

Although there are numerous disruptors of the hospitality industry, not all of them are affecting the industry in negative manner. That is, developments in the area of financial technology are providing new opportunities for the industry and its participants. Namely, the financial technology companies have widened the number and type of financial sources available for the enterprises. Enterprises, especially SMEs, nowadays have access to alternative financial sources for raising capital. These new sources of capital could help enterprises to raise funds for the purpose of financing different investment activities and day to day operations.

3. Overview of basic hospitality industry financial characteristics

Hospitality industry by itself has its own specificity in terms of the level of capital needed for construction or purchase of adequate capacity and execution of day to day activities. Stated differently, the hospitality industry requires higher level of investment capital for the construction and maintenance of accommodation facilities as well as supporting facilities. Subsequently, the need for higher level of capital is affecting the capital structure of a firm (Luís Pacheco and Fernando Tavares, 2015). This is in a sense that the capital structure is determined mainly because of the high level of fixed costs and fluctuations in demand for their products and services.

Taking into consideration the capital nature of hospitality industry, it can be stated that one of the main challenges is securing adequate level of funds needed for expansion projects (Jim Phillips and Jamie Faulkner, 2013). Another characteristic of the hospitality industry is that this industry has volatile revenue levels. Namely, the generated revenue has its peaks and lows because the demand for hospitality services are under the influence of seasonality. The seasonality affects revenue levels for both, capacities working all year round and seasonal capacities. Because of fluctuations in revenue the problem of access to financial resources is additionally augmented for hospitality industry. This is especially the case when an enterprise is planning to finance its activities through the use of debt. Meaning that, debt repayment structure should be defined in accordance to cash inflows and cash outflows of the enterprise, this can limit the willingness of banks and other lenders to lend their money to SMEs in this industry.

Traditionally hospitality industry has been financing its activities through couple of sources. The sources for capital for enterprises have been either from private lenders and personal capital, from public sources and public/private sources. The sources and presented in table 1.

Table 1: Traditional financing options for hospitality industry

Private	<ul style="list-style-type: none"> • Commercial lending • Securitization • Private Equity • Venture Capital • Public Offerings
Public	<ul style="list-style-type: none"> • National Development Banks • Multilateral Organizations • Bilateral Donors • IFIs/Regional Development Banks
Public/Private	<ul style="list-style-type: none"> • Sovereign Guarantees • Tax Incentives/ Subsidies • Social and Impact Investing • Community Investing • Diaspora Investment • Microfinance

Source: Jim Phillips and Jamie Faulkner (2013) Tourism investment and finance accessing sustainable funding and social impact capital, USAID, Sustainable Tourism: International Cooperation for Development , pp. 63 – 67.

While banks are one of the traditional sources for project financing for SMEs in the hospitality industry, the last financial crises had adverse impact on banks' willingness to lend money to the SME sector (NBA, 2015). Namely, banks have limited their financing activities toward the small and medium size enterprises in the hospitality industry, and SME sector in general. Considering other financing sources in the private category, it could be said that they could have higher cost of capital and/or very complicated process for gathering funds. The hospitality industry can not fully rely on public funds as well, especially in countries where hospitality industry (i.e. tourism industry) is not categorized as priority industry for economic development. In addition, obtaining funds from public sources can often be time consuming because of the bureaucracy and because the period of their remittance is not guaranteed. Consequently, it could be said that borrowing funds from the traditional sources is becoming too costly and time consuming for the hospitality industry.

Consequently, SMEs in the hospitality industry are looking for new sources of finances for their development projects as well as start-up projects. Innovative alternative financing source available for SMEs in the hospitality are the fintech platforms (NBA, 2015). These new and innovative financial solutions can be found in the crowdfunding market, where SMEs are able to borrow funds, sell ownership or receive donations. Accordingly, it could be said that the new platforms along with other technological innovations are disrupting the hospitality industry.

4. Fintech platforms as an alternative source for financing for hospitality industry

Although technological innovations have certain level of adverse effect on the hospitality industry, the disruptions have also created some opportunities. Namely, development of companies utilizing the financial technology (fintech companies), have increase the availability of alternative financing sources. Moreover, fintech companies also offer the possibility for outsourcing of financial management knowledge for SMEs. These new fintech companies have expanded the variety of financial products available to cover different financial needs. They have gained increased popularity especially among SMEs in various industries as a source for gathering the necessary capital for investment activities and day-to-day activities. Hospitality industry has also turned to fintech companies for rising capital, and investors are willing to invest (or lend) money to this industry. For instance, in the UK, leisure and hospitality industry was sixth most popular industry funded through fintech platforms (Bryan Zhang et al., 2016).

It should be pointed out that certain services offered by fintech companies are already utilized by the hospitality industry. Namely, SMEs operating in hospitality industry are using payment processing services (for example: credit card payments processing) offered by online platforms (de Bas, Patrick et

al., 2017). In addition, some enterprises in the hospitality industry are already using fintech products to finance their investment projects. Furthermore, inability for effective management of financial resources could lead toward worsen financial health and decrease in profits (or lost profits) for SMEs operating in hospitality industry. Consequently, fintech platforms could be beneficial for this industry. Not only they offer financial alternatives, they also offer the possibility for managing SMEs financial resources and activities (Cathy Burgess, 2007).

There are different types of fintech platforms offering financing alternatives and financial services. The most common financing platforms for accessing the required level of funds are: debt crowdfunding, equity crowdfunding, donation-based crowdfunding and reward crowdfunding. With the debt crowdfunding model investors are funding projects and in return they receive interest on their investment. Basically, they are lending their money to the project owner with the obligation for the money to be repaid with certain interest. Reward based crowdfunding is a platform where investors can contribute toward the funding of projects without the expectation to receive any financial benefits.

Even though there are different types of crowdfunding platforms, most attractive platforms for hospitality industry are equity crowdfunding and donation crowdfunding platforms. Basically, equity crowdfunding platforms are platforms where investors place certain level of funds into a business in exchange for ownership (shares) in the business. With the donation-based crowdfunding, an enterprise or individual is able to raise funds through individual donations with the objective of funding specific project. Worth mentioning is that nowadays, there are crowdfunding platforms which have been established solely to attract and finance projects from the hospitality industry (Joshua M. Bowman, 2015). There are numerous crowdfunding platforms where enterprises operating in the hospitality industry could post their projects. Some of the popular platforms are: Equity Roots platform, Realty Mogul platform, iCrowdHotels, etc.

An example for successful raising of needed capital through crowdfunding platforms is the Hard Rock Hotel in Palm Springs example. Hard Rock Hotel needed funds to cover its investment activities and decided to use alternative sources to obtain the needed capital. The hotel posted its project on real estate crowdfunding platform Realty Mogul. The hotel has successfully raised \$1.5 million from investors on the crowdfunding platforms. In return, Hard Rock Hotel in Palm Springs offered equity stakes in the hotel along with additional benefits for the investors. This is just one, out of many, example when enterprises from hospitality industry have used crowdfunding platforms as an alternative financing source.

The reason for increased popularity of alternative financing sources is primarily due to the benefits it offers for different users, including the hospitality industry. Namely, fintech platforms are offering various benefits for the SMEs and the hospitality industry in terms of easier access to financial resources, marketing and promotional benefits, lower financing costs and availability of funds for financing different activities (Vincent Grèzes et al. (2015). Since the fintech platforms are not subject to tight regulation, as banks, and because the money provided are coming from investors, it is easier for SMEs to raise the needed capital for their activities. Moreover, because the funding process is less complicated than the process of obtaining a bank loans, the costs for raising funds is also lower. Worth mentioning is the benefits of free publicity that the enterprise will get through the project.

5. Conclusion

The influx of disruptors in the hospitality industry have resulted in major changes in the industry in terms of the demand and supply for products and services. These disruptors have affected the habits and preferences of hospitality industry clients. They have changed the way people want to travel, the way travelers book their rooms, the preferences for accommodation capacities, the way tourists interact with each other and the way people make their travel decision. In addition, all these disruptors have eased the entry barriers and the hospitality industry is now faced with competitors who didn't exist fifteen years ago. Many of the disruptors have appeared because of the technological innovations.

While certain disruptors may have negatively affected the hospitality industry, there are also disruptors who had positive effect. Namely, some of the disruptors are providing solution to the long last problem of access to finance for SMEs in the hospitality industry. Enterprises in hospitality industry

nowadays have easier access through different fintech companies. These new fintech companies are offering the possibility for raising funds through some of the different types of crowdfunding platforms. Enterprises are able to raise funds from investors across the globe, and they don't solely depend on banks, or government programs to finance their investment activities.

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